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TAGS: [ECON](#) [EFIN](#) [QA](#)

SUBJECT: QATARI PERSONAL DEBT: MANAGABLE - FOR NOW

(C) KEY POINTS

--Despite significant efforts by the Government of Qatar (GOQ) to increase liquidity, banks are tightening credit in novel ways, especially for loans to expatriates.

--Personal debt, although high by Western standards, does not yet appear to pose a threat to Qatar's financial system.

--Islamic banks appear to be in better financial shape than those in Qatar using the Western model.

(C) COMMENTS

--Although evidence of high consumer debt among Qatari nationals and expatriates is largely anecdotal, our contacts are uniform in signaling the issue as a problem worthy of continued monitoring. Call-in comments to local radio shows seem to indicate the public agrees.

--While it appears most banks will weather the bad debt phenomenon, largely thanks to financial help from the Government of Qatar, there is disagreement among our contacts as to whether Qatar has reached bottom. Much will depend on how well the global economy bounces back. Until there is a clear global trend, bankers here are likely to remain cautious in their lending.

End Key Points and Comments.

(C) CREDIT CRISIS

1.(C) Since mid-2009, the GOQ in general and the Qatar Central Bank in particular have worked aggressively to inject fresh capital into the banking system. These cash injections were targeted at bank recapitalization after real estate losses and were designed to boost confidence in the local financial sector.

2.(U) Even after the cash injections, however, access to credit and rising personal debt continue to captivate public debate. On February 1st, local radio talk show Al-Watan Al-Habib hosted the director of consumer protection from the Qatar Central Bank. The hour was filled with guests calling in asking about the state of the banking sector. One caller informed the director that the terms of his 15-year loan had been shortened to seven years, while another advocated the technical advantages of Islamic versus traditional banking.

3.(C) Credit is clearly a concern for Qataris. Local newspapers have been reporting on the general tightening of credit in Qatar for many months. Since the Qatari real estate market peaked in 2008/2009, steep reductions in land prices have led many local banks to sharply reduce lending in the real estate sector. Even outside the real estate sector, banks are taking increasingly stringent measures with regard to the provision of credit. Over the last few months, several

novel methods have come into force to restrict credit. For example:

--The Qatar Central Bank has issued rules encouraging banks to issue secured credit cards in lieu of traditional ones. A Foreign Service National working for Embassy Doha, was personally asked to post a 120% deposit of the proposed credit limit with The Commercial Bank to obtain a credit card.

--Several local and international banks are starting to file (and make public) lawsuits against Qatari nationals. The Qatar Islamic Bank, Al Ahli Bank and HSBC have all announced in local newspapers suits against Qataris in default of their credit obligations, something unheard of just a few months ago.

--Banks are beginning to require letters from the employers of individuals seeking credit. These letters state that employers agree to notify the bank if and when their employee leaves the country after leaving the company.

4.(C) While credit does indeed seem harder to come by for expatriates, credit remains more readily available for Qatari nationals. The possible exception to this is the real estate sector. Abdulbasit Ahmad Al-Shaibei, CEO of Qatar International Islamic Bank (QIIB), told EconOff Wahlstrom February 2 that the days of loaning money to Qataris to buy speculative property are over. In the past, banks would finance short term speculative land investments for Qataris looking to buy property. No more. He considers this a positive development, as it is indicative of a maturing banking sector able to learn from past mistakes, he said.

(C) THE PERSONAL DEBT WILDCARD

5.(C) The streets of Doha are filled with late model Toyota, Nissan, and Mercedes Benzes. Local malls are full of high-end Western brands. The natural question arises, who is paying for this stuff? Much of the recent consumer spending is indeed financed through debt, according to Al-Shaibei.

6.(C) Al-Shaibei told Econoff Wahlstrom that QIIB was in the past willing to finance personal debt up to the point where a customer's debt payments equal 70 percent of monthly income. He said this is rarer today, with current ratios closer to 55 to 60 percent -- or even lower. However, QIIB is still willing to finance Qatari personal debt. This is due, in part, to the fact that with the downturn in real estate prices, the consumer goods sector is essentially the only growth game in town apart from publicly-financed infrastructure projects.

7.(C) While Al-Shaibei paints a fairly bright picture of the banking sector, others are not so sure. Buthania Al-Ansari, a prominent Qatari businesswoman, claims business loans are much more difficult to obtain than in previous years. Mrs. Al-Ansari told P/E Chief Rice and Econoff Wahlstrom on January 28 the Central Bank has put caps on the value of loans banks can make to entities in any one sector. She believes women entrepreneurs have been particularly hard hit by these changes. Banks are now requiring significant up-front capital (approximately 35%) in new ventures before they approve business loans. Because women often lack this capital, they are not able to get the loans to open new businesses. In her view, currently 40 to 45 percent of loan applicants cannot or will not be able to get funding for new ventures.

(C) IMPACT ON LOCAL BANKS

8.(C) Even with the recent partial recapitalization of Qatari banks, and a brighter economic outlook, banks continue to be wary. Several sources indicate significant and possibly unrecognized debt on banks, books, below the surface. When asked about how she perceived local banks, Al-Ansari gave a

varied picture. In her view, Qatar National Bank appears strong, as does QIIB, but Doha Bank and The Commercial Bank are in a more difficult position, the latter due to exposure to bad U.S.-based assets. On February 1st, six local banks announced earnings, and their results generally fall in line with Mrs. Al-Ansari's analysis.

9.(C) Exposure to bad real estate and other debts should be a concern to the banks and Qatar in general and may explain the reluctance of banks to extend credit, according to Shaykha Hanadi Bint Nasser Al-Thani, a very well regarded and prominent businesswoman. In a conversation on January 28, she expressed her view that personal debt is a major concern for banks. According to Shaykha Hanadi, "the banks are completely collateralized, but don't loan." In her view this is an unprecedented situation for Qatar. Bad debt exists, but banks are not publicizing it and do not know what to do about it. On the whole, the courts are not a satisfactory option.

10.(C) Shaykha Hanadi said that if banks regularly went to court to obtain a judgment "half of the country would be in court". According to this director of the largest Mercedes dealership in Qatar, her company does not extend credit to car buyers, while the Toyota dealership does. She believes the effects of this latent debt now appear, especially among Qataris, in the secondary market for Toyota vehicles. Prices for recently-used Toyota vehicles have fallen significantly in the last few quarters, largely due to the need of owners to sell their vehicles to cover their debts. Despite the glut of Toyotas on the market, Shaykha Hanadi believes that Qatar has reached bottom in terms of personal debt and is coming up. Much, she said, will depend on the strength of the global economic recovery.

11.(C) High personal debt levels are likely to have an uneven impact across the banking sector. Al-Shaibei claimed that personal debt levels remain very manageable for Islamic banks. He said less than two percent of QIIB loans are late, by even one day. Other bankers have told us the default rates of Western banks are far higher, without offering precise figures.
Lebaron